Medicaid: The Role of the Federal Government

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At a recent Congressional hearing on the Medicaid program, Governor Engler of Michigan testified that "there could be nothing worse, nothing more expensive, nothing more devastating to people in need than the status quo." The Medicaid program, he charged, "covertly has been an attack on the States' fiscal health...." Asked what role the Health Care Financing Administration (HCFA), the Federal agency which currently oversees Medicaid, should have, Governor Engler answered, "I would propose that you shut it down. It is a great place to save Federal jobs and taxpayers' money...one of the areas that has added billions of dollars to health care in America has been the micromanagement of Washington bureaucrats...." [Hearing before the House Commerce Committee, February 21, 1996].

This pretty much sums up the view of nation's 31 Republican Governors, and it explains much of the thinking behind the recent proposal from the National Governors' Association to repeal the current program. In my view, there could be nothing worse for the country, nothing more expensive for the Federal government, and nothing more devastating to Americans in need than the Medicaid repeal supported by Governor Engler and his Republican colleagues. To understand just how radical their proposal is, we need to begin by separating myth from fact.

Myth: Medicaid is "an attack on States' fiscal health."

Fact: Medicaid is a voluntary program. No State -- not even Michigan -- is required to participate, although all -- including Michigan -- do so. If a State participates, at least half (and as much as 80 percent) of what it spends on health and long-term care for the poor is paid for by the Federal government. On average, the Federal government pays 57 percent of the costs of the program; this year (FY1996), the Federal government will spend about $96 billion on Medicaid, and the States will spend about $72 billion. Medicaid is the single largest Federal program of grants-in-aid to the States, far eclipsing highway and education funding, and represents over 44 percent of all Federal grants-in-aid to the States.

Myth: Medicaid is a collection of "unfunded mandates" imposed on the States by the Federal government.

Facts: No State is required to participate in Medicaid. If a State participates, it must extend coverage to certain populations for certain services -- for example, it must cover "pregnancy-related services" for all pregnant women and basic health care services for infants within incomes at or below 133 percent of the Federal poverty level ($13,400 for a family of 2). However, States may also use Federal funds to cover individuals and services which they are not required to cover. In fact, of the $96 billion that the Federal government will send to the States this year in Medicaid funds, about 60 percent will be spent on services or populations that are completely optional. Only

40 percent of State Medicaid spending will be on mandatory services for mandatory populations (such as pregnancy-related services for pregnant women with incomes at or below 133 percent of poverty).

Myth: Nothing is more devastating to people in need than the current Medicaid program.

Fact: This year, Medicaid will provide basic health and long-term care coverage for over 36 million needy Americans: 19 million children, 7 million non-disabled adults (mostly women caring for children), 6 million disabled, and 4 million elderly. If Medicaid is repealed -- as Governor Engler and his colleagues propose to do -- most of these Americans would lose their individual entitlement to basic health care coverage, resulting in a dramatic increase in the number of uninsured. (Those 5 million elderly and disabled Medicaid beneficiaries who also have Medicare coverage would continue to be insured). While few would contend that current Medicaid coverage could not be improved, it is simply untenable to argue that Medicaid has been "devastating" to the low-income mothers and children and disabled and elderly Americans that it has insured against the costs of basic health and long-term care.

Myth: Washington bureaucrats are micromanaging the Medicaid program.

Fact: Even though most of the money in the program is Federal, most of the day-to-day decisions are made by State, not Federal, administrators. The States now have

considerable -- but not total -- discretion to determine what services are covered, what the rates of payment for those services are to be, and who will be eligible for them. This is reflected in the balance of Federal and State administrative personnel. The Health Care Financing Administration (HCFA), which oversees the Medicaid program for the Federal government through a central office in Baltimore and 10 regional offices throughout the country, has about 400 employees -- one tenth of its total workforce -- assigned to Medicaid. (The remainder administer the Medicare program). In contrast, in my own State of California alone, about 1800 State employees are involved in administration of the Medicaid program.

Here we get to the nub of the debate over the Federal role in Medicaid. The workers at HCFA are responsible for seeing to it that the $96 billion Federal Medicaid dollars are being spent prudently and consistently with Federal law. For example, Federal law requires States that choose to participate in Medicaid to pay physicians who provide obstetrical or pediatric services to low-income women and children "sufficient" amounts. When HCFA implements such standards by taking action against States that pay insufficient amounts, it is accused of "bureaucratic micromanagement." Governor Engler and his Republican colleagues object to both the performance standards in Federal Medicaid law and to the enforcement of those standards against the States by HCFA. In their view, the Federal role ought to be to raise $100 billion and distribute it among the States with almost no strings attached. Their rhetoric for this is "State flexibility."

If Governor Engler and his Republican colleagues get the "flexibility" they want by repealing the current Medicaid program and replacing it with a block grant, there will be a "race to the bottom" among the States unlike anything this country has seen since Medicaid was enacted 30 years ago. This "race to the bottom" will put not just low-income Americans, but also the physicians, clinics, hospitals, nursing homes, and other providers that serve them at enormous risk.

Briefly, here's what will happen under the Republican Governors' agenda. All the States will be guaranteed at least the amount of Federal Medicaid funds that they now receive, plus some fixed percentage of annual growth. However, States will have to put in far fewer State funds than they now must do in order to receive these Federal funds. Individuals will no longer be entitled to coverage for a basic set of services; instead, States will be able to pick and choose which individuals will receive coverage for which services. They will be able to discriminate in coverage based on diagnosis, medical condition, and place of residence. Similarly, States will be able to pick and choose which physicians, clinics, hospitals, and other providers they will allow to participate in the program at all, and they will have complete discretion to pay those participating providers whatever they choose. If they want to pay their State-owned hospitals or physicians 10 or 20 times as much as they pay a private hospital or physician for the same service, they will be able to do so. Neither beneficiaries nor providers will be able to use the Federal courts to enforce any rights that they might have against the States.

It's obvious where this "flexibility" will lead us. The only question is how fast it will lead us there. States will have every incentive to minimize their own Medicaid spending by structuring their program to exclude high-cost individuals and high-cost providers. Of course, States have these incentives now. The difference is, that under current law, if they want the Federal Medicaid funds, they must comply with minimum Federal requirements that prohibit them from excluding otherwise eligible high-cost individuals and providers. Under the Republican Governors' approach, however, States will be able to keep out physicians who treat patients with expensive (or politically unpopular) diagnoses or conditions; to pay those physicians completely inadequate amounts; to disallow payments for high-cost procedures or therapies or drugs; or to allow managed care plans to do the same things. States which do not take these actions -- which "do the right thing" -- will soon find themselves as "magnets" for low-income Americans whose own States will no longer cover their costly illnesses or will no longer reimburse their personal physicians for treating them.

There is an alternative to this radical, extreme approach. President Clinton has proposed a set of reforms in Medicaid which will retain the basic health care entitlement for 36 million Americans while at the same time giving the States even more discretion to run their programs than they now have (although not as much as the Republican Governors seek). While the President's proposal is not perfect -- it does not, in my own view, contain sufficient protection for physicians and other providers against inadequate payments -- it does recognize that there is an important Federal role in the financing and oversight of the Medicaid program.